

Financial Summary

General Fund Revenue

General Fund Revenue

Total General Fund revenue for the Annual Fiscal Year 2003 Budget is \$729.3 million, which represents a 0.3 percent increase over the Fiscal Year 2002 Budget. General Fund revenue funds core City services including police, fire and life safety services, refuse collection, library services and parks and recreation programs.

The majority of General Fund revenue is comprised of Property Tax, Sales Tax, Transient Occupancy Tax (TOT), and Motor Vehicle License Fees (MVLFF). Changes in the local, state, and national economic environments can impact each of these revenue sources. Other General Fund revenue sources are influenced by economic conditions as well as a myriad of non-economic factors.

The pages which follow in this Financial Summary contain information regarding the revenue categories listed to the right, and provide insight into the formulation of the Annual Fiscal Year 2003 General Fund revenue projections.

A more detailed breakdown of Annual Fiscal Year 2003 General Fund revenue budget figures is provided in Schedule III, which is contained in the Budget Summary Schedules section of this Financial Summary. Fiscal Year 2002 budgetary data and actual data covering Fiscal Year 2001 are included as well.

Property Tax

Other Local Taxes

- Sales Tax
- Safety Sales Tax
- Transient Occupancy Tax
- Property Transfer Tax

Licenses and Permits

Fines, Forfeitures, and Penalties

Revenue from Money and Property

- Interest Earnings
- Franchises
- Rents and Concessions

Revenue from Other Agencies

- Motor Vehicle License Fees
- Other

Charges for Current Services

Transfers from Other Funds

Other Revenue

Financial Summary

General Fund Revenue

**Total City Budget
\$195.8 million**

**General Fund
Budget
\$188.6 million**

**Percent of
General Fund
25.8%**

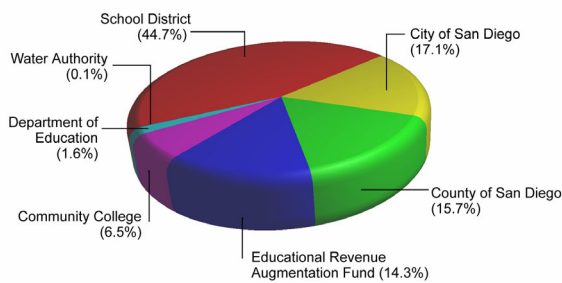
Property Tax

Property Tax revenue collected by the County Tax Collector is a result of a 1 percent levy on the fair market value of all real property. Passed by voters in 1979, Proposition 13 specifies that an assessed value may increase at the rate of the Consumer Price Index (CPI), not to exceed 2 percent per year based on the 1979 value, unless the property is improved or sold to establish a new market value.

The County of San Diego distributes Property Tax in 13 apportionments to a number of agencies within the City's geographic area, including the County itself, school districts, and special districts. For every \$100 collected, the allocation to the City's General Fund totals \$17.10.

Property Tax is collected for additional purposes other than supporting the General Fund. An additional levy over the 1 percent rate is collected to pay debt service on voter-approved debt. In June 1990, voters approved a \$25.5 million debt issuance to finance a new public safety communication system for the City; the levy is \$2.11 per \$100,000 assessed valuation for Fiscal Year 2003, and is adjusted annually. In addition, a special tax levy of \$5.00 per \$100,000 assessed valuation is used to fund zoological exhibits.

Property Tax Allocation



Over the past decade, many factors have contributed to reductions in the amount of Property Tax revenue the City has received. In Fiscal Year 1993, the State took action to reduce its obligation for school funding by shifting local Property Tax revenue to school districts. This reallocation of funds caused a permanent shift in City Property Tax that will translate into a cumulative loss of over \$311.2 million through Fiscal Year 2003. In addition to this reduction in City revenue, the State authorized counties to charge cities administrative fees for collecting and distributing Property Tax. For the City of San Diego, that action has further reduced annual Property Tax receipts by approximately \$2.1 million per fiscal year.

The Annual Fiscal Year 2003 Budget assumes a 9 percent growth in Property Tax receipts over the Fiscal Year 2002 year-end estimates at the time the budget was prepared. This projected growth is attributed to higher total assessed valuation of properties within City limits due to a tight housing market, rising home prices, and strong home sale activity resulting in reassessments of properties at higher market values.

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General Fund Revenue

Other Local Taxes

Sales Tax

Sales Tax is the largest source of non-Property Tax revenue for the City's General Fund. The City receives one cent (or 13 percent) of the total Sales Tax levied on each dollar of taxable sales within the City of San Diego. Sales Tax is collected at the point of sale and remitted to the State Board of Equalization. The tax receipts owed to the City are returned in the form of monthly payments.

The Sales Tax rate of 7.75 percent was reduced to 7.5 percent for calendar year 2001 by the Governor, after the State of California ended two consecutive fiscal years with a reserve in the Special Fund for Economic Uncertainties of at least 4 percent of its total general fund revenue for a single calendar year. The rate of 7.75 percent was restored effective January 1, 2002. Neither of the Sales Tax rate changes implemented in 2001 or 2002 affected the Sales Tax revenue received locally by the City of San Diego, only that received by the State.

The City utilizes Sales Tax revenues within the General Fund as well as the Police Decentralization Fund, Street Division Operating Fund, Special Promotional Programs, and other funds.

Sales Tax revenue is sensitive to changes in the economy. Lower consumer confidence and retail sales and a higher unemployment rate are usually the indicators of a decrease in Sales Tax revenue, while a gain in consumer confidence, retail sales and a low unemployment rate lead to an increase in Sales Tax revenue.

The current economic situation has impacted the consumer mood in the region. According to the San Diego Union-Tribune consumer confidence August 2002 poll, San Diego's overall consumer confidence has decreased by 9.7 percent from July 2001 to July 2002, and the index measuring views about the current economy has decreased by 21.7 percent for the same period.

Despite the fluctuations in economic recovery, economic outlook for the second half of 2002 is characterized by sustained economic expansion. The UCLA Anderson Forecast points out that San Diego county is leading a statewide economic recovery among six other Southern California counties.

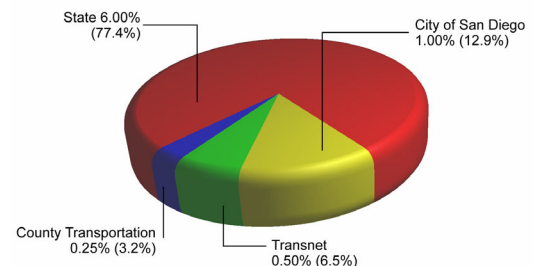
Factoring in the various economic indicators, the Annual Fiscal Year 2003 Budget assumes a 4 percent growth in Sales Tax receipts over the Fiscal Year 2002 year-end estimate at the time the budget was prepared, reflecting projected growth in the local economy as well as increased revenue attributed to Super Bowl XXXVII to be held in San Diego in January 2003.

**Total City Budget
\$195.1 million**

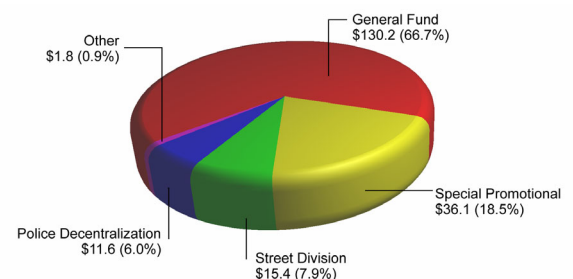
**General Fund
Budget
\$130.2 million**

**Percent of
General Fund
17.8%**

Sales Tax Allocation



Total City Sales Tax Allocation (In Millions)



Financial Summary

General Fund Revenue

Total City Budget
\$6.2 million

General Fund
Budget
\$4.2 million

Percent of
General Fund
0.6%

Safety Sales Tax

The City receives a portion of the monies derived from the one half-cent Sales Tax, which was approved by voters on November 2, 1993 with the passage of Proposition 172 and became effective January 1, 1994. Otherwise known as Safety Sales Tax, this revenue must be utilized solely for local public safety purposes. The State imposes the levy and the State Controller's Office disburses these receipts to the County Local Public Safety Fund for distribution. Cities receive five percent of the amount in the Fund based upon their 1993-94 allocation that was derived from their proportionate loss of Property Tax revenue to school districts.

Subsequent legislation (Senate Bill 8) changed the allocation system for Proposition 172 revenue and lifted the cap on the share that the City of San Diego and other cities could receive. Total revenues reflect additional funds received by the City as a result of this legislation.

City Council Policy 500-07, which directs the use of Proposition 172 funds for new public safety expenditures thereby ensuring an augmentation of existing General Fund public safety expenditure levels, was adopted in June 1994. In actuality, increases to public safety expenditures in the Police and Fire and Life Safety Services departments have far exceeded the revenue growth of Safety Sales Tax, ensuring the City's compliance with Council Policy 500-07.

The Annual Fiscal Year 2003 Budget assumes a 3 percent growth in Safety Sales Tax receipts over the Fiscal Year 2002 year-end estimate, reflecting projected growth in the local economy. Of the \$6.2 million included in the Annual Fiscal Year 2003 Budget, approximately \$2.0 million is allocated for the debt service payments on fire and life-guard facility improvements with the remainder allocated to the General Fund.

Total City Budget
\$108.2 million

General Fund
Budget
\$56.7 million

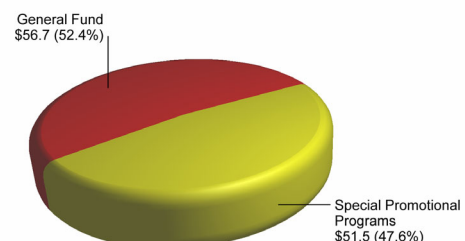
Percent of
General Fund
7.8%

Transient Occupancy Tax

Transient Occupancy Tax (TOT) is a tax levied on the hotel/motel room rent of visitors staying in San Diego for less than one month. A one and one-half cent rate increase became effective in August 1994, which increased the TOT rate to ten and one-half cents. The equivalent of five and one-half cents of the ten and one-half cents per dollar of TOT collected is allocated directly to the General Fund for general government purposes. An amount equivalent to five cents per dollar of TOT is allocated for various promotional and other purposes as designated by City Council policy and through the Special Promotional Programs Budget. Eligible organizations may submit TOT funding requests annually.

San Diego enjoys a tremendous national and international reputation as a unique travel and leisure destination. The events of September 11, 2001 and subsequent developments struck a severe blow to the tourism industry nationwide. As a result of these events, the Fiscal Year 2002 Budget experienced a shortfall in TOT revenues. However, San Diego's hotel market, with a large leisure travel market accounting for approximately 70 percent of hotel guests, most of whom reside within driving distance, is expected to

Total City Transient Occupancy Tax Allocation (In Millions)



Financial Summary

General Fund Revenue

recover more quickly than other major markets more heavily dependent on business travelers and guests who rely on air travel. Also, convention activity has performed well during Fiscal Year 2002 and is expected to continue into the future with the operation of the expanded San Diego Convention Center, open since September 2001. Adjacent to the expanded San Diego Convention Center, several hotel projects such as the San Diego Hyatt and the W Hotel, are in the process of being developed. Also, the Padres are building a 500-room Omni hotel adjacent to the Ballpark facility and across the street from the San Diego Convention Center. Super Bowl XXXVII festivities are expected to attract visitors during January 2003 as well.

The Annual Fiscal Year 2003 Budget assumes 6.0 percent growth in TOT receipts over the Fiscal Year 2002 year-end estimate at the time the budget was prepared, reflecting projected growth in the local economy as well as additional revenue attributed to hotels developed and operating in the Downtown area due to the Ballpark District redevelopment project. The estimate also includes the revenue projected from Super Bowl XXXVII to be held in San Diego in January 2003.

Property Transfer Tax

A Property Transfer Tax is levied on the sale of real estate. The County collects \$0.55 per \$500 of assessed valuation at the time ownership of real property is transferred. The City of San Diego receives half of all funds collected by the County Recorder for transfers that occur within the City limit which are disbursed in 13 apportionments to the City.

Property Transfer Tax is highly reflective of the housing market and is generally more volatile than overall property taxes. Appreciation or depreciation in property values and sales volume in the local real estate market specifically affect Property Transfer Tax revenues. A slowdown in construction, and, in the long term, a diminishing supply of developable City land, may impact this revenue source.

With a limited increase in supply to offset the increased demand for housing, home prices have continued to rise and home sales have continued to grow during Fiscal Year 2002. While home title transfer activity has increased only slightly from July 2001, San Diego County's median single-family home price has increased by almost 25 percent during the past year to \$333,000 as of July 2002. With the volatility of Property Transfer Tax receipts, the Annual Fiscal Year 2003 Budget remains at Fiscal Year 2002 projected levels of \$6.3 million.

Total City Budget
\$6.3 million

General Fund Budget
\$6.3 million

Percent of General Fund
0.9%

Financial Summary

General Fund Revenue

Total City Budget
\$48.0 million

General Fund
Budget
\$21.6 million

Percent of
General Fund
3.0%

Licenses and Permits

The Licenses and Permits category reflects revenue generated to recover costs associated with performing regulatory functions. These functions are typically performed by government due to public safety considerations. Included in this category are business taxes, rental unit taxes, and parking meter revenue.

The business tax for businesses with 12 or fewer employees is a flat rate of \$34. Business taxes for businesses with 13 or more employees are based on a flat rate of \$125 plus a fee of \$5 per employee. Rental unit taxes are calculated as a flat rate plus a fee per rental unit. Currently, the rental unit tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties.

Total City Budget
\$27.9 million

General Fund
Budget
\$26.9 million

Percent of
General Fund
3.7%

Fines, Forfeitures, and Penalties

Fines, Forfeitures, and Penalties include revenue generated from monetary sanctions associated with the violation of a law or regulation such as California Vehicle Code violations, City parking and ordinance violations, and litigation awards.

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General Fund Revenue

Revenue from Money and Property

Interest Earnings

The City Treasurer is responsible for investing the City's cash assets exclusive of City Pension Trust Funds. All City funds are pooled and invested together to facilitate increased flexibility in the management of the portfolio for the purpose of maximizing interest earnings. Fund investment must be consistent with the City's investment policy and the State's restrictions on types of investments. Investments may be held up to five years, depending on the climate in the investment marketplace and the cash flow requirements of the City.

The projections for interest earnings are based on assumptions as to the average amount to be invested and a forecast of the general level of interest rates throughout the fiscal year. The City Treasurer is currently managing the core portfolio on a total return basis. Major deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested in the fiscal year. Past interest performance is no guarantee of future results.

The decline in interest rates over the last couple of years has increased the value of a number of securities bought when interest rates were generally higher. When these securities are sold, the City realizes this increase in value as capital gains. The Fiscal Year 2002 General Fund Interest Earnings is \$9.0 million, compared to a budgeted amount of \$5.9 million. This is due to the realization of significant gains from the sale of older securities.

These gains are offsetting the lower earnings derived from the reinvestment of Fiscal Year 2002 revenues at low current market interest rates. As such, earnings for Fiscal Year 2003 are expected to be significantly less than last year's earnings. Furthermore, returns for Fiscal Year 2003 would be further reduced if interest rates were to increase and capital losses are incurred due to the change in the market value of portfolio securities. For these reasons, the Annual Fiscal Year 2003 Budget remains at the Fiscal Year 2002 budgeted level of \$5.9 million.

Franchises

Agreements that allow utility and cable companies to use the City rights-of-way provide for City franchise fee revenue. The largest component of the Franchises subcategory is San Diego Gas & Electric (SDG&E) franchise fee revenue. At 3 percent of the gross sales of gas and electricity within the City, this revenue is required to be distributed as follows: 75 percent to the General Fund and 25 percent to the Environmental Growth Fund (EGF). One-third of the EGF is used to finance various environmental programs such as regional park and open space maintenance. The remaining two-thirds of the EGF is used for debt service on open space acquisition bonds.

The City's General Fund also receives franchise fees amounting to 3 percent of gross receipts from cable television service providers such as Cox Communications and Time Warner Cable for use of the City's rights-of-way to provide cable television service. Franchise fee revenues received from Cox Communications are projected to increase in Fiscal Year 2003 with the change in franchise fees from 3 percent to 5 percent of cable company gross revenue, recently approved by the City Council.

Total City Budget
\$40.1 million

General Fund Budget
\$5.9 million

Percent of General Fund
0.8%

Total City Budget
\$66.1 million

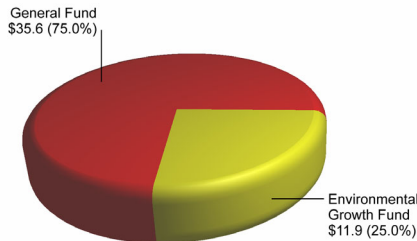
General Fund Budget
\$54.2 million

Percent of General Fund
7.4%

Financial Summary

General Fund Revenue

Total City SDG&E Franchise Fee Allocation (In Millions)



Included in the Annual Fiscal Year 2003 Budget for the General Fund are \$35.6 million from SDG&E franchise fees, \$9.7 million from cable franchise fees, and \$8.8 million from refuse collection franchise fees based on refuse tonnage, which includes a proposed fee increase on refuse haulers.

In March 2002, the Federal Communications Commission issued a Declaratory Order effectively prohibiting the City from receiving franchise fees related to cable modem services provided by Cox Communications and Time Warner Cable. Franchise fees on cable modem services are not being paid to the City and are not included in the Annual Fiscal Year 2003 Budget projection.

In addition, the City Council approved 3.53 percent surcharge on the gross sales of electricity within the City to be used for the purposes of undergrounding utility lines subject to approval by the California Public Utility Commission. This revenue is not included in the Annual Fiscal Year 2003 Budget.

Total City Budget
\$40.1 million

General Fund Budget
\$27.9 million

Percent of General Fund
3.9%

Rents and Concessions

The Rents and Concessions category includes General Fund revenue generated from Mission Bay Park, Balboa Park and Torrey Pines Golf Course.

The largest component of this category is Mission Bay Park rents and concessions revenue, the majority of which is generated from leases with Sea World, Marina Village Conference Center, and hotels and marinas within Mission Bay Park. This revenue source is projected at \$20.1 million in Fiscal Year 2003.

Another component of this category relates to revenue generated from lease agreements of City Pueblo lands, which in Fiscal Year 2003 is projected at \$2.7 million.

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General Fund Revenue

Revenue from Other Agencies

Motor Vehicle License Fees

Motor Vehicle License Fees (MVLFF) are calculated as a percentage of an automobile's market value and are payable annually to the Department of Motor Vehicles at the time of registration. The fees collected are forwarded to the State Controller's Office for administration and are distributed on a per capita basis statewide. Of the total revenue received by the State, cities and counties are apportioned 81.25 percent and 18.75 percent, respectively. Notably, because statewide revenues are distributed on a per capita basis, increases to local vehicle sales do not directly translate into local MVLFF revenue increases.

New vehicle registrations in California, which affect the MVLFF collected by the State, recorded only moderate growth during Fiscal Year 2002 following strong growth in Fiscal Year 2001. Automobile sales have remained steady in the aftermath of the events of September 11, 2001, due to unprecedented financing incentives. In the forthcoming fiscal year, growth in automobile sales is projected to continue, albeit at a slower rate. The Annual Fiscal Year 2003 Budget assumes 4 percent growth in MVLFF receipts over the Fiscal Year 2002 year-end estimate at the time the budget was prepared.

The reduction in MVLFF due to a tax credit on the registration of vehicles, enacted by State legislators in 1999, continues to be offset by other State General Fund revenue to local governments.

Other

A significant amount of revenue received by the City is initially collected by other agencies and then returned (or subvented) to the City. Within the General Fund, Revenues from Other Agencies include Federal and State grants, and reimbursement for general City services provided to the Unified Port District.

The Annual Fiscal Year 2003 Budget includes revenue totaling approximately \$7.6 million in this category, which includes a return from the State of funding to cities and counties for booking fee-related costs. The City of San Diego anticipates the return of \$5.2 million from the State for payments made to the County for jail-related expenses. However, local government relief from the State such as that received during Fiscal Years 2000 and 2001 is not included.

The State Police Officer Standards Training (POST) grant reimbursement, included in the General Fund beginning in Fiscal Year 1995, is budgeted at \$400,000 in Fiscal Year 2003.

Beginning in Fiscal Year 1996, the City also began receiving funds to help offset the cost of additional police officers as a result of Federal crime legislation. Through the COPS Program, the City will receive a total of approximately \$175,000 in Fiscal Year 2003.

Total City Budget
\$72.2 million

General Fund Budget
\$72.2 million

Percent of General Fund
9.9%

Total City Budget
\$121.1 million

General Fund Budget
\$7.6 million

Percent of General Fund
1.0%

Financial Summary

General Fund Revenue

Total City Budget
\$636.0 million

General Fund
Budget
\$68.6 million

Percent of
General Fund
9.4%

Charges for Current Services

Charges for Current Services includes revenue generated by General Fund departments resulting from services provided to other City funds. General Fund departments regularly incur expenses in the process of performing services for other City funds and receive reimbursement for direct, indirect, and overhead costs. Such instances include general government services and facilities maintenance services provided to other City funds. Refer to Schedule III of this Financial Summary for a breakdown of the budgetary data by subcategory.

Total City Budget
\$378.5 million

General Fund
Budget
\$0.9 million

Percent of
General Fund
0.1%

Other Revenue

Other Revenue represents only 0.1 percent of total General Fund revenue and mainly consists of revenue generated from the sale of publications and excess inventory. This category, however, represents a substantial portion of the Sewer Fund and Water Fund revenues related to bond proceeds.

Total City Budget
\$118.3 million

General Fund
Budget
\$38.1 million

Percent of
General Fund
5.2%

Transfers from Other Funds

The revenue in the Transfers from Other Funds category reflects transfers to the General Fund from several funds and includes a transfer from Special Promotional Programs to cover the costs of maintenance of tourist-oriented facilities and permanent police officers added during Fiscal Years 1994 through 1998 in response to the adoption of the Public Safety Ordinance.